

Message Text

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ACTION EB-11

INFO OCT-01 EA-11 ADP-00 AID-20 CIAE-00 COME-00 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 HUD-02 PA-03 PRS-01 USIA-12 L-03

RSR-01 /107 W

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R 080538 Z JUN 73

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 7216

UNCLAS HONG KONG 5728

EO 11652: N/ A

TAGS: ECON HK

SUBJECT: HKG IMPOSES TEMPORARY FREEZE ON RENTS

SUMMARY: THE HKG HAS TEMPORARILY FROZEN RENTS ON DOMESTIC PREMISES AND IS PREPARING COMPREHENSIVE RENT CONTROL LEGISLATION FOR IMPLEMENTATION LATER THIS YEAR. APARTMENT RENTS HAVE SKYROCKETTED RECENTLY, AND THE HKG ACTION REFLECTS CONCERN OVER THIS AND THE POSSIBILITY THAT FOREIGN FIRMS WOULD REMOVE OFFICES FROM HONG KONG. END SUMMARY

1. A BILL PROVIDING FOR A TEMPORARY FREEZE FOR RENTS EFFECTIVE JUNE 7, 1973, WAS INTRODUCED TO AND PASSED BY THE LEGISLATIVE COUNCIL ON JUNE 6. THE NEW LAW FREEZES RENTS FOR ALL DOMESTIC PREMISES BUILT SINCE WWII WHICH WERE NOT COVERED UNDER EXISTING RENT CONTROL REGULATION, EXCEPT LEASES OF NEW OR VACANT PREMISES.

2. THE GOVERNMENT HAS ANNOUNCED THAT COMPREHENSIVE LONGER- TERM MEASURES NOW BEING DRAFTED HOPEFULLY WILL BE INTRODUCED INTO THE LEGISLATIVE COUNCIL NEXT MONTH AND IMPLEMENTED LATER THIS YEAR. PREMISES NEWLY COMPLETED WHEN THIS BILL TAKES EFFECT WILL BE EXCLUDED FROM CONTROLS FOR THREE YEARS IN ORDER TO ENCOURAGE NEW DEVELOPERS TO

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OBTAIN A REASONABLE RETURN ON THEIR INVESTMENT. AN INDEPENDENT RENT TRIBUNAL WILL BE SET UP TO REVIEW UPON APPLICATION BY EITHER A TENANT OR LANDLORD ANY INCREASE DETERMINED BY THE COMMISSIONER OF RATING AND VALUATION. RENT OF PREMISES NOT PREVIOUSLY LET WOULD NOT BE RESTRAINED, BUT INCREASES THEREAFTER WOULD BE CONTROLLED. RENT UNDER NEW LEASES FOR PREMISES PREVIOUSLY LET WOULD NOT BE ALLOWED TO EXCEED THE FAIR MARKET RENT AS ASSESSED BY THE COMMISSIONER OF RATING AND VALUATION. INCREASES WOULD BE LIMITED TO ONE-FIFTH OF THE DIFFERENCE BETWEEN THE ASSESSED FAIR MARKET RENT AND THE EXISTING CONTROLLED RENT, SUBJECT TO A MAXIMUM INCREASE OF 10 PERCENT PER ANNUM (OR 21 PERCENT OVER TWO YEARS).

3. THE ACTING COLONIAL SECRETARY EXPLAINED THAT THE TEMPORARY FREEZE WAS DESIGNED TO COPE WITH THE CURRENT SITUATION UNTIL THE COMPREHENSIVE SCHEME NOTED ABOVE COULD BE IMPLEMENTED. HE EXPLAINED THAT RENTS NOT SUBJECT TO THE 1970 RENT CONTROLS HAD " SKYROCKETED TO ABSURD HEIGHTS," WHILE RENTS SUBJECT TO THE 1970 CONTROLS HAVE BEEN HELD DOWN IN SOME CASES TO UNREALISTICALLY LOW LEVELS. THE NEW LEGISLATION WOULD BE DESIGNED TO ENCOURAGE DEVELOPERS TO CONTINUE BUILDING, FOR EVEN THE GOVERNMENT'S PROGRAM TO PROVIDE SUBSIDIZED HOMES FOR MORE THAN 1,500,000 PEOPLE IN THE NEXT TEN YEARS WOULD NOT BE ENOUGH.

4. ONE LANDLORD TOLD THE COMMISSIONER JUNE 7, THAT SERVICE FOR HIS 1500 RENTED APARTMENTS WOULD DECLINE AND HE WOULD SEEK EVEN HIGHER RENTS FOR 500 APARTMENTS NOW UNDER CONSTRUCTION. MOST COMMENT, HOWEVER, HAS BEEN MORE CHEERFUL, PARTICULARLY FROM THOSE WHO NOW EXPECT LESS RENT GOUGING IN THE FUTURE. THE GENERAL SECRETARY OF THE AMERICAN CHAMBER OF COMMERCE EXPRESSED PLEASURE OVER THE ACTION. HE AND OTHER OBSERVERS HAVE COMMENTED THAT THE ACTION REFLECTS HONG KONG CONCERN NOT ONLY OVER THE DISRUPTIVE EFFECT OF SPIRALLING RENTS ON HONG KONG'S ECONOMY, BUT ALSO LEST FOREIGN FIRMS, ALREADY UNEASY OVER RENTS MAKING HONG KONG THE MOST EXPENSIVE CITY IN THE WORLD IN WHICH TO RENT AN APARTMENT, DECIDE TO MOVE REGIONAL HEADQUARTERS ELSEWHERE.

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*** Current Handling Restrictions *** n/a

*** Current Classification *** UNCLASSIFIED

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 08 JUN 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973HONGK05728
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: n/a
Errors: n/a
Film Number: n/a
From: HONG KONG
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730619/aaaajbgn.tel
Line Count: 113
Locator: TEXT ON-LINE
Office: ACTION EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: willialc
Review Comment: n/a
Review Content Flags:
Review Date: 08 AUG 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <08-Aug-2001 by maustmc>; APPROVED <20-Aug-2001 by willialc>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> wfs 980206
Subject: HKG IMPOSES TEMPORARY FREEZE ON RENTS
TAGS: ECON, HK
To: EB
SECSTATE WASHDC
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005